

104TH CONGRESS
2D SESSION

H. R. 3039

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service and enacting a national retail sales tax to be administered primarily by the States.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 1996

Mr. SCHAEFER (for himself, Mr. TAUZIN, Mr. CHRYSLER, Mr. BONO, Mr. HEFLEY, Mr. LINDER, and Mr. STUMP) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To promote freedom, fairness, and economic opportunity for families by repealing the income tax, abolishing the Internal Revenue Service and enacting a national retail sales tax to be administered primarily by the States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “National Retail Sales Tax Act of 1996”.

6 (b) TABLE OF CONTENTS.—The table of contents of
7 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Congressional findings.
- Sec. 3. Income tax, estate and gift and misc. excise taxes repealed.
- Sec. 4. Sales and use tax.
 - “Sec. 1. Imposition of sales tax.
 - “Sec. 2. Exemptions.
 - “Sec. 3. Special rules.
 - “Sec. 11. Credits and refunds.
 - “Sec. 12. Special rules for residential real property.
 - “Sec. 15. Family consumption refund.
 - “Sec. 21. Definitions.
 - “Sec. 22. Special rules.
 - “Sec. 31. Authority for States to collect tax.
 - “Sec. 32. Federal administrative support for States.
 - “Sec. 33. Federal administration option for multistate vendors.
 - “Sec. 41. Monthly report and payment.
 - “Sec. 42. Records.
 - “Sec. 43. Registration.
 - “Sec. 44. Certificates.
 - “Sec. 45. Penalties.
 - “Sec. 46. Burden of persuasion and burden of production.
 - “Sec. 47. Attorneys and accountancy fees.
 - “Sec. 48. Appeals.
 - “Sec. 49. Subpoenas.
 - “Sec. 50. Tax court jurisdiction.
 - “Sec. 51. Power to levy.
 - “Sec. 52. Problem resolution offices.
 - “Sec. 53. Jurisdiction and interstate allocation.
 - “Sec. 54. Tax to be separately stated and charged.”
- Sec. 5. IRS phase-out.
- Sec. 6. Excise Tax Administration.
- Sec. 7. Social Security Administration to collect payroll tax..
- Sec. 8. Self employment tax.
- Sec. 9. Interest.
- Sec. 10. Supermajority required to raise rate.

1 **SEC. 2. CONGRESSIONAL FINDINGS.**

- 2 (a) The Congress finds that the income tax—
- 3 (1) retards economic growth and has reduced
- 4 the standard of living of the American public;
- 5 (2) impedes the international competitiveness of
- 6 United States industry;
- 7 (3) reduces savings and investment in the Unit-
- 8 ed States;
- 9 (4) lowers productivity;

1 (5) imposes unacceptable administrative costs
2 on taxpayers, individuals and businesses alike;

3 (6) is unfair and inequitable; and

4 (7) unnecessarily intrudes upon the privacy and
5 civil rights of United States citizens.

6 (b) The Congress finds further that national sales,
7 services and use tax on final consumption of goods and
8 services—

9 (1) is similar in many respects to those in place
10 in 45 of the 50 States;

11 (2) will promote savings;

12 (3) will promote fairness;

13 (4) will promote economic growth;

14 (5) will raise the standard of living;

15 (6) will increase savings and investment;

16 (7) will enhance productivity and international
17 competitiveness;

18 (8) will reduce administrative burdens on the
19 taxpayer; and

20 (9) will respect the privacy interests and civil
21 rights of taxpayers.

22 (c) The Congress further finds that—

23 (1) most of the practical experience administer-
24 ing sales taxes is found at the State Governmental
25 level;

1 (2) it is desirable to harmonize Federal and
2 State collection and enforcement efforts to the maxi-
3 mum extent possible;

4 (3) it is sound tax administration policy to ad-
5 minister and collect the Federal sales and service tax
6 at the State level in return for a reasonable adminis-
7 tration fee to the States;

8 (4) businesses that must collect and remit taxes
9 should receive reasonable compensation for the cost
10 of doing so; and

11 (5) the sixteenth amendment to the Constitu-
12 tion should be repealed.

13 **SEC. 3. REPEAL OF THE INCOME TAX, ESTATE AND GIFT**
14 **TAXES, AND CERTAIN EXCISE TAXES.**

15 (a) IN GENERAL.—The following provisions of the In-
16 ternal Revenue Code of 1986 are hereby repealed:

17 (1) Chapter 1 (relating to income tax).

18 (2) Chapter 5 (relating to tax on transfers to
19 avoid income tax).

20 (3) Chapter 6 (relating to consolidated returns).

21 (4) Chapter 24 (relating to collection of income
22 tax at source).

23 (5) Subtitle B (relating to estate and gift
24 taxes).

25 (6) Chapter 31 (relating to retail excise taxes).

1 (7) Chapter 32 (relating to manufacturers ex-
2 cise taxes).

3 (8) Subtitle E (relating to alcohol, tobacco, and
4 certain other excise taxes).

5 (9) Subtitle F (relating to procedure and ad-
6 ministration of the income tax and certain other
7 taxes) except for section 6103 (relating to confiden-
8 tiality), chapter 66 (relating to limitations), chapter
9 67 (relating to interest), section 6656 (relating to
10 failure to make deposit of taxes), section 6657 (re-
11 lating to bad checks), section 6658 (relating to co-
12 ordination with title 11), chapter 75 (relating to
13 crimes), chapter 76 (relating to Judicial Proceed-
14 ings), section 7431 (relating to damages for unau-
15 thorized disclosure), section 7432 (relating to dam-
16 ages for failure to release lien), section 7433 (relat-
17 ing to damages for unauthorized collection data) and
18 chapter 77 (relating to miscellaneous provisions).
19 References to provisions repealed by the preceding
20 sentence shall be treated as references to such provi-
21 sions as in effect on the day before the date of the
22 enactment of this Act.
23 (b) EFFECTIVE DATE.—

1 (1) IN GENERAL.—Except as provided in para-
 2 graph (2), the amendments made by subsection (a)
 3 shall take effect on January 1, 1998.

4 (2) INCOME TAX.—The amendment made by
 5 subsection (a)(1) shall apply to taxable years begin-
 6 ning after December 31, 1997.

7 (3) SALES TAX.—The amendment made by sec-
 8 tion 4 shall take effect on January 1, 1998.

9 (4) SUPERMAJORITY REQUIRED.—The amend-
 10 ment made by section 5 shall take effect on January
 11 1, 1998.

12 **SEC. 4. SALES TAX.**

13 (a) IN GENERAL.—Subtitle A of the Internal Reve-
 14 nue Code of 1986 is amended by inserting at the begin-
 15 ning the following new chapter:

16 **“CHAPTER 1—SALES TAX**

“SUBCHAPTER A. Imposition of tax.

“SUBCHAPTER B. Credits; refunds; deferred payment of tax on
 sales of residences.

“SUBCHAPTER C. Definitions and special rules.

“SUBCHAPTER D. Authority for States to collect tax.

“SUBCHAPTER E. Other administrative provisions.

17 **“Subchapter A—Imposition of Tax**

“Sec. 1. Imposition of tax.

“Sec. 2. Exemptions.

“Sec. 3. Special rules relating to collection and remittance of tax.

18 **“SECTION 1. IMPOSITION OF TAX.**

19 “(a) IN GENERAL.—There is hereby imposed a tax
 20 of 15 percent on the gross payments for the use, consump-

1 tion or enjoyment in the United States of any taxable
2 property or service, whether produced or rendered within
3 or without the United States.

4 “(b) COORDINATION WITH IMPORT DUTIES.—The
5 taxes imposed by this section are in addition to any import
6 duties imposed by law. The Secretary shall provide by reg-
7 ulation that, to the maximum extent practicable, the taxes
8 imposed by this section on imported property and services
9 are collected and administered in conjunction with any ap-
10 plicable import duties.

11 “(c) LIABILITY FOR COLLECTION AND REMITTANCE
12 OF THE TAX.—

13 “(1) GENERAL RULE.—The tax imposed by
14 subsection (a) shall be collected and remitted by the
15 seller, except as provided in subsection (2).

16 “(2) TAX TO BE PAID BY PURCHASER IN CER-
17 TAIN CIRCUMSTANCES.—

18 “(A) GENERAL RULE.—In the case of tax-
19 able property or services purchased outside of
20 the United States for use, consumption or en-
21 joyment in the United States, the purchaser
22 shall remit the tax imposed by subsection (a).

23 “(B) In the case of a purchaser electing to
24 pay tax in installments pursuant to section 12,

1 the purchaser shall remit the tax imposed by
2 subsection (a).

3 “(C) The Secretary may provide by regula-
4 tion that the tax imposed by subsection (a) is
5 to be collected and remitted by the purchaser
6 rather than the seller.

7 **“SEC. 2. EXEMPTIONS.**

8 “(a) IN GENERAL.—No tax shall be imposed under
9 this subtitle on any taxable property or service—

10 “(1) purchased for resale,

11 “(2) purchased to produce taxable property or
12 services, or

13 “(3) exported from the United States for use,
14 consumption or enjoyment outside the United
15 States.

16 “(b) EXCEPTION FOR DE MINIMIS PAYMENTS.—The
17 tax imposed by section 1 shall not apply to payments made
18 by any person not engaged in an active trade or business
19 at any time during a calendar year if in the case of any
20 taxable property or service imported into the United
21 States for use, consumption or enjoyment by such per-
22 son—

23 “(1) the gross amount paid for such property or
24 services does not exceed \$400 for any particular
25 entry, and

1 “(2) the aggregate amount of payments during
2 such year by such person does not exceed \$2,000.

3 “(c) EXCEPTION FOR DE MINIMIS SALES.—The tax
4 imposed by section 1 shall not apply to any gross pay-
5 ments received by any person not engaged in an active
6 trade or business at any time during a calendar year in
7 connection with a casual or isolated sale if—

8 “(1) the gross payments from each such sale to
9 such person during such year does not exceed
10 \$2,000, and

11 “(2) the aggregate gross payments from all
12 such sales to such person during such year does not
13 exceed \$5,000.

14 “(d) SELLER RELIEVED OF LIABILITY IN CERTAIN
15 CASES.—In the case of any property or service which is
16 sold exempt from tax under subsection (a), if the seller—

17 “(1) has on file a copy of an exemption certifi-
18 cate from the purchaser, and

19 “(2) did not have reasonable cause to believe
20 that an exemption from the tax imposed by sub-
21 section (a) was unavailable to the purchaser with re-
22 spect to such purchase,

23 then the seller shall be relieved of liability to collect and
24 remit the tax imposed under subsection (a) on such pur-
25 chase.

1 “(e) **AFFILIATED FIRMS.**—Firms that make pur-
 2 chases from, or sell to, affiliated firms which are exempt
 3 pursuant to subsection (a) shall not need to comply with
 4 the requirements of subsection (d) for said purchases to
 5 remain exempt. For purposes of this section, a firm is af-
 6 filiated with another if one firm owns 50 percent or more
 7 of the voting shares or interests in the other.

8 “(f) **CROSS REFERENCES.**—

**“For option to collect tax on certain exempt pur-
 chases, see section 3(b).**

“For registration requirements, see section 43.

“For certificate rules, see section 44.

9 **“SEC. 3. SPECIAL RULES RELATING TO COLLECTION AND**
 10 **REMITTANCE OF TAX.**

11 “(a) **OBLIGATION OF GOVERNMENTAL UNITS AND**
 12 **NOT-FOR-PROFIT ORGANIZATIONS TO COLLECT, REMIT**
 13 **AND PAY TAXES.**—

14 “(1) **GOVERNMENTAL UNITS.**—Nothing in this
 15 subtitle shall be construed to exempt any Federal,
 16 State, or local governmental unit or political subdivi-
 17 sion from paying any tax imposed by this subtitle on
 18 any sale, purchase, use, consumption or enjoyment
 19 by such a unit.

20 “(2) **NOT-FOR-PROFIT ORGANIZATIONS.**—

21 “(A) **IN GENERAL.**—Dues, contributions
 22 and payments to qualified not-for-profit organi-
 23 zations shall not be considered gross payments

1 for taxable property or services for purposes of
2 this subtitle.

3 “(B) EXCEPTION.—Notwithstanding sub-
4 paragraph (2)(A), payments of any form to a
5 not-for-profit organization shall be considered
6 gross payments for taxable property or services
7 if the property or service provided in exchange
8 is not substantially related to the exempt pur-
9 poses of the organization or is commercially
10 available.

11 “(C) For purposes of this section, qualified
12 not-for-profit organization means a not-for-prof-
13 it organization organized and operated exclu-
14 sively—

15 “(i) for religious, charitable, scientific,
16 testing for public safety, literary or edu-
17 cational purposes;

18 “(ii) as civic leagues or social welfare
19 organizations;

20 “(iii) as labor, agricultural or horti-
21 cultural organizations;

22 “(iv) as chambers of commerce, busi-
23 ness leagues or trade associations; or

24 “(v) as fraternal beneficiary societies,
25 orders or associations;

1 “no part of the net earnings of which inures to
2 the benefit of any private shareholder or indi-
3 vidual.

4 “(D) Upon application in a form pre-
5 scribed by the State Administrator, the State
6 Administrator shall provide qualification certifi-
7 cates to qualified not-for-profit organizations.

8 “(E) If a not-for-profit organization pro-
9 vides property or personal services in connection
10 with contributions or dues to the organizations,
11 then it shall be required to treat the provision
12 of said property or personal services as a pur-
13 chase taxable pursuant to this subtitle at the
14 fair market value of said property or personal
15 services.

16 “(F) Taxable property and services pur-
17 chased by not-for-profit organizations for resale
18 or for use in the production of taxable property
19 or services shall be eligible for the exemptions
20 provided in section 2.

21 “(b) OPTION TO COLLECT TAX ON CERTAIN EX-
22 EMPT PURCHASES.—

23 “(1) IN GENERAL.—In the case of a purchase
24 which would (but for this subsection (b) be exempt
25 from the tax imposed by section 1 by reason of sec-

1 tion 2(a), such subsection shall not apply to such
2 purchase if the seller—

3 “(A) elects the application of this sub-
4 section, and

5 “(B) immediately provides the purchaser
6 with a receipt reflecting the information re-
7 quired by section 54. Seller may elect to exer-
8 cise the application of this section with respect
9 to some or all purchases or purchasers.

10 “(2) The Secretary may by regulation provide
11 that certain industries or specific products are such
12 that the vendor must collect the tax on otherwise ex-
13 empt purchase if, in the Secretary’s judgment, said
14 industry or products are such that consumers buy
15 25 percent or more of the product sold by the indus-
16 try or the product. A registered vendor may by ap-
17 plication for good cause shown elect to opt out of the
18 application of this paragraph.

19 “(3) CROSS REFERENCE.—

**“For credit to purchaser where seller collects tax
 on exempt purchase, see section 11(a)(3).**

**“For Tax To Be Separately Stated and Charged,
 see section 59.**

20 **“Subchapter B—Credits; Refunds; Install-**
21 **ment Payments of Tax on Purchases of**
22 **Residences**

 “Sec. 11. Credits and refunds.

“Sec. 12. Installment payments of tax on purchases of principal residences.

“Sec. 15. Family Consumption Refund.

1 **“SEC. 11. CREDITS AND REFUNDS.**

2 “(a) GENERAL CREDITS.—Each person shall be al-
3 lowed a credit against the taxes imposed by section 1 for
4 any month in an amount equal to the sum of—

5 “(1) such person’s used property credit under
6 subsection (c) for such month,

7 “(2) such person’s business use conversion
8 credit under subsection (d) for such month,

9 “(3) the amount paid by such person with re-
10 spect to a purchase during such month by reason of
11 a tax collected on an exempt purchase pursuant to
12 section 3(b) (relating to election to collect tax on
13 certain nontaxable purchases),

14 “(4) the administration credit under section (e),

15 “(5) the compliance equipment cost credit
16 under section (f), and

17 “(6) any amount paid in excess of amount due.

18 “(b) REFUNDS.—

19 “(1) FILERS.—If a person files two consecutive
20 monthly tax reports with a credit balance, then,
21 upon application in a form prescribed by the State
22 Administrator, then the credit balance shown on the
23 second monthly report shall be refunded to the tax-
24 payer within 60 days of said application.

1 “(2) NONFILERS.—If a person other than a
2 monthly-filer has an excess credit for any month,
3 then, upon application in a form prescribed by the
4 State Administrator, then the credit balance due
5 shall be refunded to the taxpayer within 60 days of
6 said application.

7 “(3) INTEREST.—No interest shall be required
8 to be paid on any overpayment under this subsection
9 for any month if such overpayment is paid within 60
10 days after the close of such month.

11 “(4) SUSPENSION OF PERIOD TO PAY REFUND
12 ONLY IF FEDERAL COURT RULING.—The 60-day pe-
13 riods under paragraphs (1) and (2) shall be sus-
14 pended with respect to a purported credit balance
15 (or portion thereof) only during any period that
16 there is in effect a preliminary ruling from a Federal
17 court that there is reasonable cause to believe that
18 such credit balance is not actually the amount due.

19 “(5) MONTHLY-FILER.—For purposes of this
20 subsection, the term ‘monthly-filer’ means, with re-
21 spect to any month, any person required to register
22 under section 43 for such month.

23 “(c) USED PROPERTY CREDIT.—

24 “(1) IN GENERAL.—For purposes of subsection
25 (a), a seller shall receive credit for previous sales tax

1 paid on the resale of taxable property or services, as
2 provided in this subsection (c).

3 “(2) DETERMINATION OF USED PROPERTY
4 CREDIT AMOUNT.—The used property credit amount
5 determined under this paragraph with respect to any
6 property is the lesser of—

7 “(A) the amount of tax due and paid by
8 virtue of the present transaction (without re-
9 gard to any credits), or

10 “(B) the most recent prior tax imposed by
11 section 1 with respect to such property trans-
12 action (without regard to any credits).

13 “(3) TRANSITIONAL DEEMED PAID RULE FOR
14 PROPERTY OWNED ON EFFECTIVE DATE OF ACT.—
15 In the case of property which was acquired by the
16 seller before January 1, 1999, the amount under
17 paragraph (2)(B) shall be the amount which is the
18 product of—

19 “(A) that which would be determined
20 under paragraph (2)(B) as if this subtitle had
21 been in effect at the time of such acquisition,
22 and

23 “(B) the equity ratio (as defined in para-
24 graph (4)).

25 “(4) The equity ratio is the quotient of—

1 “(i) the income tax basis in the prop-
 2 erty at the end of 1997, less the mortgage
 3 or debt secured by said property, divided
 4 by

5 “(ii) the income tax basis in the prop-
 6 erty at the end of 1997:

7 *Provided, however,* That the quantity defined in sub-
 8 paragraph (1) can not be less than zero and further
 9 providing that the equity ratio so calculated cannot
 10 be less than zero or greater than one.

11 “(d) BUSINESS USE CONVERSION CREDIT.—

12 “(1) IN GENERAL.—For purposes of subsection
 13 (a), a person’s business use conversion credit for any
 14 month is the aggregate of the amounts determined
 15 under paragraph (2) with respect to property—

16 “(A) on which a prior tax was imposed by
 17 section 1 on the purchase by such person, and

18 “(B) which commences to be exclusively
 19 used during such month in the production by
 20 such person of other taxable property or serv-
 21 ices.

22 “(2) AMOUNT OF CREDIT.—The amount deter-
 23 mined under this paragraph with respect to any
 24 property is lesser of—

1 “(A) the product of the rate imposed by
2 section 1 and the fair market value of the prop-
3 erty when its use is converted, and

4 “(B) the prior tax referred to in paragraph
5 (1)(A).

6 “(3) Property converted from business use to
7 personal use shall be subject to tax pursuant to sec-
8 tion 1 on the book value of the converted property
9 as of the date of conversion, provided that the books
10 are kept in accordance with generally accepted ac-
11 counting principles.

12 “(e) ADMINISTRATION CREDIT.—Every taxpayer fil-
13 ing a timely monthly report in compliance with section 41
14 shall be entitled to a taxpayer administrative credit equal
15 to the greater of—

16 “(1) \$100, or

17 “(2) one-half of 1 percent of the tax remitted:
18 *Provided, however,* That in no event will the credit
19 afforded by this section exceed 20 percent of the tax
20 due to be remitted prior to the application of this
21 credit.

22 “(f) COMPLIANCE EQUIPMENT COST CREDIT.—Ven-
23 dors required to purchase new equipment to comply with
24 the provisions of section 54 shall be entitled to a credit
25 in the amount of 50 percent of the cost of such equipment.

1 **“SEC. 12. INSTALLMENT PAYMENTS OF TAX ON PURCHASE**
2 **OF PRINCIPAL RESIDENCES.**

3 “(a) IN GENERAL.—If—

4 “(1) property is purchased and used as the
5 principal residence of any purchaser of such prop-
6 erty, and

7 “(2) such purchaser elects the application of
8 this section, then the tax imposed by section 1 with
9 respect to such purchase shall be paid in equal an-
10 nual installments over the 30-year period beginning
11 on the date of such sale together with simple inter-
12 est at the rate imposed by section 6621 of the Inter-
13 nal Revenue Code of 1986

14 “(b) TERMINATION OF INSTALLMENTS IF PROPERTY
15 IS SOLD OR OTHERWISE CEASES TO BE PRINCIPAL RESI-
16 DENCE.—

17 “(1) IN GENERAL.—If, before the close of the
18 30-year period referred to in subsection (a), any
19 property to which an election under subsection (a)
20 applies—

21 “(A) is sold, or

22 “(B) otherwise ceases to be used as the
23 principal residence of any purchaser making
24 such election,

25 then the unpaid installments shall be due no later
26 than two years after the time of such sale or ces-

1 sation. To the extent that such sale or cessation is
2 only of a portion of such residential property, the
3 preceding sentence shall apply only to a like portion
4 (based on value) of such unpaid installments.

5 “(2) SPECIAL RULE.—In a case to which para-
6 graph (1)(B) applies with respect to any pur-
7 chaser—

8 “(A) if such purchaser purchases within
9 two years another property which property is
10 purchased and used as the principal residence
11 of such purchaser, the remaining unpaid install-
12 ments shall be due at the time of such pur-
13 chase, and

14 “(B) if subparagraph (A) does not apply to
15 such purchaser, the remaining unpaid install-
16 ments shall be due at the close of the two-year
17 period beginning on the date of the cessation
18 referred to in paragraph (1)(B).

19 “(C) The two-year period referred to in
20 subparagraph (B) shall be suspended during
21 any period that such purchaser uses such prop-
22 erty as his principal residence.

23 “(3) If any purchaser exercises the right to in-
24 stallment payments under this section, then the re-
25 sponsibility to remit the tax due is the purchaser’s

1 rather than the seller’s provided that the seller has
2 on file a copy of the election form prescribed by the
3 Secretary.

4 **“SEC. 15. FAMILY CONSUMPTION REFUND.**

5 “(a) GENERAL RULE.—Each qualified family unit
6 (as defined in subsection (b)) shall be eligible to receive
7 a sales tax rebate in an amount no greater than the prod-
8 uct of—

9 “(1) the rate of tax imposed by section 1, and

10 “(2) the lesser of—

11 “(A) the poverty level (as defined in sub-
12 section (c)), or

13 “(B) the wage income of the family unit,
14 in the manner prescribed and subject to the limitations
15 set forth by this section.

16 “(b) QUALIFIED FAMILY UNIT DEFINED.—For pur-
17 poses of this section, the term qualified family unit shall
18 mean any family sharing a common residence. Any family
19 members (as defined in subsection (e)) sharing a common
20 residence shall be considered part of one integrated family
21 unit.

22 “(c) POVERTY LEVEL DEFINED.—The poverty level
23 shall be the quotient that is—

24 “(1) the level determined by the Department of
25 Health and Human Services poverty guidelines re-

1 quired by sections 652 and 673(2) of the Omnibus
2 Reconciliation Act of 1981 (all States and the Dis-
3 trict of Columbia) for family units of a particular
4 size, divided by

5 “(2) the quantity that is one minus the tax rate
6 imposed by section 1.

7 “(d) REBATE MECHANISM.—

8 “(1) GENERAL RULE.—The rebate provided by
9 section (a) shall be provided to each qualified family
10 unit by including the pay period rebate amount in
11 each paycheck.

12 “(2) PAY PERIOD REBATE AMOUNT.—The pay
13 period rebate amount shall be the lesser of product
14 of the rate of tax imposed by the section 1 and—

15 “(A) the wages paid during the pay period,

16 or

17 “(B) the quotient that is the poverty level
18 for the family unit (determined in accordance
19 with subsection (c)) divided by the number of
20 pay periods in a year.

21 “(3) ADJUSTED WITHHOLDING TABLES TO BE
22 PROVIDED TO EMPLOYERS.—The Social Security
23 Administration shall publish revised withholding ta-
24 bles for use by employers.

1 “(4) COORDINATION.—The family member re-
2 ceiving the family consumption rebate shall set
3 forth, in a form prescribed by the Social Security
4 Administration, the names and Social Security num-
5 bers of all members of the family unit for which a
6 rebate is claimed. Employers shall provide this infor-
7 mation in the form prescribed to the Social Security
8 Administration.

9 “(e) FAMILY MEMBERS DEFINED.—For purposes of
10 determining the size of the family unit, family members
11 shall include each spouse or the head of household, chil-
12 dren, grandchildren, parents and grandparents.

13 “(f) DISQUALIFIED FAMILY MEMBERS.—In order for
14 a family member to be counted for purposes of determin-
15 ing family unit size, said family member must—

16 “(1) if over the age of two years, have a bona
17 fide Social Security number; and

18 “(2) be a lawful resident of the United States.

19 “(g) STUDENTS LIVING AWAY FROM HOME.—A stu-
20 dent during each of five months in a calendar year living
21 away from the common residence of a family unit but who
22 receives over 50 percent of his support from the family
23 unit shall be included as part of that family unit for pur-
24 poses of this section.

1 “(h) CHANGE IN FAMILY CIRCUMSTANCES.—The
2 residence of family members, marital status and number
3 of persons in a family unit on the first day of the calendar
4 year shall govern determinations required to be made
5 under this section for purposes of said calendar year.

6 “(i) TWO OR MORE FAMILY MEMBERS WORKING.—
7 The family unit may elect to divide the rebate between
8 two family members. Family members shall make this
9 election in a form prescribed by the Social Security Ad-
10 ministration and shall when making said election disclose
11 the name and Social Security number of the other family
12 members. Creditable wages for families making this elec-
13 tion shall not exceed one half of the poverty level for that
14 family unit.

15 “(j) EMPLOYERS TO ADJUST REMITTANCES.—Em-
16 ployers shall reduce their payroll tax remittances to the
17 Social Security Administration by the amount of Family
18 Consumption Rebate provided in employee paychecks.

19 “(k) NO DOUBLE COUNTING.—In no event shall any
20 person be considered part of more than one family unit.

21 “(l) SOCIAL SECURITY ADMINISTRATION.—The So-
22 cial Security Administration shall provide to multiple
23 wage-earner family units who received a lower rebate
24 amount than that to which that were entitled under sub-
25 section (a) due to the application of the limitations in sub-

1 section (d)(2) and subsection (i) any payment due within
 2 30 days of the close of the calendar year.

3 **“Subchapter C—Definitions and Special**
 4 **Rules**

“Sec. 21. Definitions.
 “Sec. 22. Special rules.

5 **“SEC. 21. DEFINITIONS.**

6 “(a) FINANCIAL INTERMEDIATION SERVICES.—For
 7 purposes of this subtitle—

8 “(1) IN GENERAL.—The term ‘financial
 9 intermediation services’ means the sum of—

10 “(A) explicitly charged financial
 11 intermediation services, and

12 “(B) implicitly charged financial
 13 intermediation services.

14 “(2) EXCEPTIONS.—Nothing in this chapter
 15 shall be construed to impose a tax under this sub-
 16 title on interest, dividends, capital gains or other in-
 17 vestment income.

18 “(3) EXPLICITLY CHARGED FINANCIAL
 19 INTERMEDIATION SERVICES.—The term ‘explicitly
 20 charged financial intermediation services’ includes—

21 “(A) brokerage fees (including the full
 22 amount of stated commissions, and the spread
 23 between bid and asked price on a particular ex-
 24 ecuted trade),

1 “(B) explicitly stated banking, loan origi-
2 nation, processing, documentation, credit check
3 fees or other similar fees,

4 “(C) safe-deposit box fees,

5 “(D) insurance premiums, to the extent
6 such premiums are not allocable to the invest-
7 ment account of the underlying insurance pol-
8 icy,

9 “(E) trustees’ fees, and

10 “(F) other financial services fees (includ-
11 ing mutual fund management, sales and exit
12 fees).

13 “(4) IMPLICITLY CHARGED FINANCIAL
14 INTERMEDIATION SERVICES.—

15 “(A) IN GENERAL.—The term ‘implicitly
16 charged financial intermediation services’ in-
17 cludes the gross imputed amount in relation to
18 any underlying interest bearing investment, ac-
19 count or debt less any explicitly stated amounts
20 or fees in relation to such underlying interest
21 bearing investment, account or debt.

22 “(B) GROSS IMPUTED AMOUNT.—For pur-
23 poses of subparagraph (A), the term ‘gross im-
24 puted amount’ means—

1 “(i) with respect to any underlying in-
2 terest bearing investment or account, the
3 product of—

4 “(I) the excess (if any) of the ap-
5 plicable interest rate over the rate
6 paid on such investment, and

7 “(II) such account balance; and

8 “(ii) with respect to any underlying
9 interest bearing debt, the product of—

10 “(I) the excess (if any) of the
11 rate paid on such debt over the appli-
12 cable interest rate, and

13 “(II) such debt balance.

14 “(C) APPLICABLE INTEREST RATE.—For
15 purposes of subparagraph (B), the applicable
16 interest rate shall be the sum of the—

17 “(i) rate that the Federal Government
18 generally pays when it issues securities of
19 like-term and like-issuance date to the
20 term and issuance date of the underlying
21 investment or debt for which a gross im-
22 puted amount is being calculated and

23 “(ii) 2 percent.

24 The Secretary shall publish a table of applicable
25 interest rates to be used for purposes of this

1 paragraph for each month and for various
2 terms.

3 “(b) GROSS PAYMENTS.—For purposes of this sub-
4 title, the term ‘gross payments’ shall mean gross payments
5 inclusive of Federal tax imposed by, and State taxes im-
6 posed in conformity with, this chapter but exclusive of cus-
7 toms duties. Gross payment shall be the product of the
8 pre-tax factor and the payments for the taxable property
9 or service exclusive of State and Federal taxes imposed
10 by, and State taxes imposed in conformity with, this sub-
11 title. For purposes of this section, the pre-tax factor shall
12 be one divided by the quantity that is one minus the sum
13 of—

14 “(1) the Federal tax rate imposed by section 1,
15 and

16 “(2) the State tax rate imposed in conformity
17 with this subtitle.

18 “(c) Primary residence shall mean residential real
19 property used predominantly as the place of abode for a
20 person or persons. A person shall have only one primary
21 residence for purposes of this section. A married couple
22 shall have only one primary residence.

23 “(d) PURCHASED FOR RESALE.—For purposes of
24 section 2(a)(1), a property or service is purchased for re-
25 sale if such property or service is purchased by a person

1 in an active trade or business for the purpose of reselling
2 the taxable property or service in the ordinary course of
3 that active trade or business.

4 “(e) PURCHASED TO PRODUCE TAXABLE PROPERTY
5 OR SERVICES.—For purposes of section 2(a)(2)—

6 “(1) IN GENERAL.—A property or service is
7 purchased to produce a taxable property or service
8 if such property or service is purchased by a person
9 in an active trade or business for the purpose of em-
10 ploying or using such property or service in the pro-
11 duction or sale of other taxable property or services
12 in the ordinary course of that active trade or busi-
13 ness.

14 “(2) RESEARCH EXPERIMENTATION AND DE-
15 VELOPMENT.—Taxable property or services used in
16 an active trade or business for the purpose of re-
17 search, experimentation and development shall be
18 treated as purchased to produce taxable property or
19 services.

20 “(3) INSURANCE PAYMENTS.—A property or
21 service purchased by an insurance company on be-
22 half of an insured shall be treated as a property or
23 service purchased to produce a taxable property or
24 service if the entire premium for the insurance con-
25 tract giving rise to the insurer’s obligation was sub-

1 ject to tax in accordance with subsection (a) (relat-
2 ing to financial intermediation services).

3 “(4) EDUCATION AND TRAINING.—Education
4 and training shall be treated as purchased to
5 produce taxable property or services. For purposes
6 of this section, education and training shall mean
7 tuition for general primary, secondary, or university
8 level education, and tuition for job-related training
9 courses. Tuition shall not include amounts attrib-
10 utable to room or board for the student.

11 “(f) Qualified fixtures shall include only those fix-
12 tures that are a permanent, integral, incorporated and
13 irremovable part of the structure and shall exclude fur-
14 niture, furnishings, appliances or similar tangible personal
15 property.

16 “(g) REAL PROPERTY.—For purposes of this chap-
17 ter, the term real property shall have the meaning ascribed
18 to it at common law. The Secretary shall by regulation
19 establish uniform national rules for purposes of admin-
20 istering this chapter to the extent that jurisdictions within
21 the United States may provide different holdings as to the
22 scope of the term real property.

23 “(h) RESIDENCE.—Whenever this chapter requires
24 that the State of ‘residence’ need be determined, it shall
25 be determined in descending order of priority as the State

1 of permanent abode, the center of vital interests, or the
2 habitual abode. If the State of residence is still undeter-
3 mined, if the person is a resident of the United States,
4 the determination will be made by the Federal Office of
5 Revenue Allocation.

6 “(i) Residential real property is real property, includ-
7 ing structures, land, and qualified fixtures and appur-
8 tenances thereto that—

9 “(1) is held in fee simple and

10 “(2) is predominantly used as a residence or
11 dwelling.

12 “(j) SECRETARY.—For purposes of this chapter, the
13 term ‘Secretary’ means the United States Secretary of
14 Treasury.

15 “(k) STATE ADMINISTRATOR.—For purposes of this
16 chapter, the term ‘State Administrator’ shall mean the
17 highest State official responsible for administering the
18 taxes imposed by this subtitle in the conforming State. In
19 States that are not conforming States, the ‘State Adminis-
20 trator’ shall mean the person designated by the Secretary
21 as the Federal official responsible for administering the
22 taxes imposed by this chapter in a non-conforming State.
23 State Administrator shall also mean, when the context so
24 requires, the Federal official responsible for administering
25 the multi-State vendor program.

1 “(l) Structures, for purposes of subsection (i) shall
2 include homes that are manufactured housing but not self-
3 propelled and not on wheels.

4 “(m) TANGIBLE PERSONAL PROPERTY.—For pur-
5 poses of this chapter, the term tangible personal property
6 shall have the meaning ascribed to it at common law. The
7 Secretary shall by regulation establish uniform national
8 rules for purposes of administering this chapter to the ex-
9 tent that jurisdictions within the United States may pro-
10 vide different holdings as to the scope of the term tangible
11 personal property.

12 “(n) TAXABLE PROPERTY OR SERVICES.—

13 “(1) GENERAL RULE.—For purposes of this
14 chapter, the term ‘taxable property or service’
15 means—

16 “(A) any property (including leaseholds of
17 any term or rents with respect to such prop-
18 erty) other than intangible property, and

19 “(B) any service (including any financial
20 intermediation services).

21 “(2) WAGES.—For purposes of the preceding
22 sentence, services shall not include wages paid by an
23 employer engaged in an active trade or business that
24 is registered pursuant to section 43. Services shall

1 include wages paid by an employer not engaged in
2 an active trade or business unless—

3 “(A) those wages are subject to tax pursu-
4 ant to section 22(i), or

5 “(B) those wages are paid by a qualified
6 not-for-profit organization (as defined in section
7 3(a)(iii)).

8 “(o) UNITED STATES.—For purposes of this chapter,
9 the term ‘United States’, when used in the geographical
10 sense, means the 50 States, the District of Columbia, and
11 any commonwealth, territory or possession of the United
12 States.

13 **“SEC. 22. SPECIAL RULES.**

14 “(a) TIMING OF TAX ON FINANCIAL
15 INTERMEDIATION SERVICES.—The tax on financial
16 intermediation services provided in connection to an un-
17 derlying investment account or debt shall be calculated
18 and collected with the same frequency that statements are
19 rendered by the financial institution in connection with the
20 investment account or debt but not less frequently than
21 quarterly.

22 “(b) The financial institution need not calculate its
23 liability on a transaction by transaction or account by ac-
24 count basis provided that the method used by the financial
25 institution is—

1 “(1) reasonable, and

2 “(2) will lead to a tax liability that is substan-
3 tially similar to that projected under ordinary sales
4 tax principles.

5 “(c) SPECIAL RULES RELATING TO INTERNATIONAL
6 FINANCIAL INTERMEDIATION SERVICES.—Financial
7 intermediation services shall be deemed as used, consumed
8 or enjoyed within the United States if the financial
9 intermediation services provider or any related party has
10 a permanent establishment in the United States and the
11 person purchasing the services is a resident of the United
12 States. For purposes of the preceding sentence, the term
13 ‘related party’ means, with respect to any financial institu-
14 tion, any corporation which is a member of a controlled
15 group (as defined in former section 267(f)) which includes
16 such institution.

17 “(d) FINANCING LEASES.—The Secretary shall pro-
18 mulgate rules for disaggregating the principle and interest
19 components of a financing lease. For purposes of this sub-
20 section, a financing lease shall be any lease under which
21 the lessee shall have the right to acquire the property for
22 50 percent or less of its fair market value at the end of
23 the lease term. The imputed interest rate to be employed
24 by the Secretary when promulgating said regulations shall
25 be the applicable rate (as defined in section 21(a)(4)(C)).

1 “(e) INSTALLMENT SALES, ACCOUNTING, RE-
2 TURNS.—

3 “(1) GENERAL RULE.—Tax will be due when
4 payment for the taxable property and services sold,
5 consumed, used or enjoyed is actually received.

6 “(2) ALTERNATIVE RULE.—A vendor may elect
7 to adopt the accrual method of accounting for pur-
8 poses of determining when the tax will be due. Said
9 election must apply to all sales made by vendor in
10 a particular calendar year.

11 “(3) INSTALLMENT SALES.—Tax will be due on
12 taxable property and services sold under the install-
13 ment method when payment for the taxable property
14 and services sold is actually received.

15 “(4) RETURNS.—A credit shall be provided to
16 the vendor for returned taxable property and serv-
17 ices when actual payment for the returned taxable
18 property and services is made by the vendor to the
19 person returning the taxable property and services.

20 “(f) MIXED USE PROPERTY OR SERVICES.—

21 “(1) MIXED USE PROPERTY OR SERVICE DE-
22 FINED.—Mixed Use Property or Service is taxable
23 property or services purchased both for a purpose
24 that would give rise to an exemption pursuant to

1 section 2 and for taxable use, consumption or enjoy-
2 ment.

3 “(2) EXEMPTION THRESHOLD.—Mixed Use
4 Property or Service shall not be exempt pursuant to
5 section 2 unless said property is used more than 95
6 percent for purposes that would give rise to an ex-
7 emption pursuant to section 2.

8 “(3) MIXED USE PROPERTY OR SERVICES
9 CREDIT.—A business registered pursuant to section
10 43 is entitled to a business use conversion credit
11 (pursuant to section 11(d)) equal to product of—

12 “(A) the mixed use property amount,

13 “(B) the business use ratio, and

14 “(C) the rate of tax imposed by section 1.

15 “(4) MIXED USE PROPERTY AMOUNT.—The
16 mixed use property amount for each year shall be—

17 “(A) one-thirtieth of the purchase price for
18 real property for thirty years or until the prop-
19 erty is sold,

20 “(B) one-seventh of the purchase price for
21 tangible personal property for seven years or
22 until the property is sold,

23 “(C) one-fifth of the purchase price for ve-
24 hicles for five years or until the property is
25 sold, and

1 “(D) a reasonable amount for other types
2 of taxable property or services or in accordance
3 with regulations.

4 “(5) BUSINESS USE RATIO.—The business use
5 ratio is the ratio of business use to total use for a
6 particular year. For vehicles, the business use ratio
7 will be the ratio of business purpose miles to total
8 miles. For real property, the business use ratio is
9 the ratio of floor space used for business purposes
10 to total floor space. For tangible personal property
11 (except for vehicles), the business use ratio is the
12 ratio of total time used for business purposes to
13 total time used. For other property or services, the
14 business ratio shall be calculated using a reasonable
15 method. Reasonable records must be maintained to
16 support a taxpayer’s business use of the mixed use
17 property or service.

18 “(g) HOBBY ACTIVITIES.—The exemptions afforded
19 by section 2 shall not be available for purchases made by
20 a trade or business if that trade or business is an activity
21 not engaged in for profit. If the business activity has re-
22 ceived gross payments that exceed the sum of—

23 “(1) taxable property and services purchased,

24 “(2) wages paid, and

25 “(3) taxes paid,

1 in three or more of the most recent calendar years then
 2 the business activity shall be deemed to be engaged in for
 3 profit.

4 “(h) GAMING.—There is hereby imposed a 15-percent
 5 tax on taxable gaming services. Taxable gaming services
 6 shall be the gross gaming receipts less total gaming pay-
 7 offs. This tax shall be paid and remitted by the person
 8 offering the gaming services.

9 “(i) GOVERNMENT SERVICES.—There is hereby im-
 10 posed an excise tax on the receipt of wages by Federal,
 11 State and local government employees equal to 15 percent
 12 of said wages. Said excise tax is to be withheld and remit-
 13 ted by the employer.

14 **“Subchapter D—Authority for States to**
 15 **Collect Tax**

“Sec. 31. Authority for States to collect tax.

“Sec. 32. Federal administrative support for States.

“Sec. 33. Federal administration option for multi-State vendors.

16 **“SEC. 31. AUTHORITY FOR STATES TO COLLECT TAX.**

17 “(a) IN GENERAL.—The tax imposed by this chapter
 18 on gross payments for the use, consumption or enjoyment
 19 of taxable property or services within a State which is an
 20 administering State shall be administered, collected, and
 21 remitted to the United States Treasury by such State.

22 “(b) ADMINISTERING STATE.—For purposes of this
 23 section, the term ‘administering State’ means any State—

1 “(1) which maintains a conforming sales tax,
2 and

3 “(2) which enters into a cooperative agreement
4 with the Secretary containing reasonable provisions,
5 limited in scope and detail, governing the adminis-
6 tration by such State of the taxes imposed by this
7 chapter and the remittance to the United States in
8 a timely manner of taxes collected under this chap-
9 ter.

10 “(c) CONFORMING SALES TAX.—For purposes of
11 subsection (b), a State maintains a conforming sales tax
12 if such State imposes, administers, and collects a sales
13 tax—

14 “(1) which conforms to the tax imposed by this
15 chapter in all significant respects (other than the
16 rate of tax), including—

17 “(A) the same taxable property and serv-
18 ices,

19 “(B) the same exemptions, and

20 “(C) the same credits and refunds (other
21 than section 11(a)(4) relating to the taxpayer
22 administrative credit and section 15 relating to
23 the family consumption refund), and

24 “(2) which is imposed at a rate of no less than
25 1 percent.

1 “(d) COOPERATIVE AGREEMENTS.—The agreement
2 under subsection (b)(2) shall be limited in scope and detail
3 but include provisions for the expeditious transfer of
4 funds, contact officers, dispute resolution, and other mat-
5 ters of importance.

6 “(e) TIMELY REMITTANCE OF TAX.—

7 “(1) IN GENERAL.—Administering States shall
8 remit and pay over taxes collected under this chap-
9 ter on behalf of the United States (less the adminis-
10 tration fee allowable under paragraph (2)) no later
11 than 15 days after receipt.

12 “(2) ADMINISTRATION FEE.—Administering
13 States may retain an administration fee equal to one
14 percent of the amounts otherwise required to be re-
15 mitted to the United States under this chapter by
16 the State.

17 “(f) LIMITATION ON ADMINISTRATION OF TAX BY
18 UNITED STATES.—The Secretary may administer the tax
19 imposed by this chapter in an administering State only
20 if—

21 “(1)(A) such State has failed on a regular and
22 sustained basis to timely remit to the United States
23 taxes collected under this chapter on behalf of the
24 United States, or

1 “(B) such State has on a regular and sustained
2 basis otherwise materially breached the agreement
3 referred to in subsection (b)(2),

4 “(2) the State has failed to cure such failures
5 and alleged breaches within a reasonable time,

6 “(3) the Secretary provides such State with
7 written notice of such failures and alleged breaches,
8 and

9 “(4) a district court of the United States within
10 such State has rendered a decision permitting such
11 administration.

12 “(g) The Secretary shall administer the tax imposed
13 by this chapter in any State or other jurisdiction that is
14 not an administering State.

15 “(h) It shall be permissible for a conforming State
16 to contract with another conforming State to administer
17 its sales tax for an agreed fee. In this case, the agreement
18 contemplated by subsection (d) shall have both States and
19 the Federal Government as parties.

20 “(i) COORDINATION AMONG CONFORMING STATES.—

21 “(1) EXEMPTION CERTIFICATES.—Conforming
22 States shall honor exemption certificates issued by
23 other conforming States.

24 “(2) AUDITS.—Conforming States shall not
25 conduct audits at facilities in other Conforming

1 States but shall instead cooperate with other Con-
2 forming States using the mechanisms established by
3 section 32 of this subchapter or by other agreement
4 or Compact.

5 **“SEC. 32. FEDERAL ADMINISTRATIVE SUPPORT FOR**
6 **STATES.**

7 “(a) The Secretary shall administer a program to fa-
8 cilitate information sharing among States.

9 “(b) The Secretary shall facilitate and may be a party
10 to a Compact Among Conforming States for purposes of
11 facilitating the taxation of interstate purchases and for
12 other purposes that may facilitate implementation of this
13 chapter.

14 “(c) The Secretary shall have the authority to pro-
15 mulgate regulations and guidelines to assist States in ad-
16 ministering the national sales tax, to provide for uniform-
17 ity in the administration of the tax and to provide guid-
18 ance to taxpayers and administrators.

19 **“SEC. 33. FEDERAL ADMINISTRATION OPTION FOR**
20 **MULTISTATE VENDORS.**

21 “(a) IN GENERAL.—Vendors that maintain retail es-
22 tablishments in five or more conforming States may elect,
23 in a form prescribed by the Secretary, to have their sales
24 tax obligations administered by the Federal Government
25 under the multistate vendor program.

1 “(b) FEDERAL GOVERNMENT TO COLLECT AND
 2 REMIT STATE SALES TAXES.—Under the multistate ven-
 3 dor program, the Federal Government will collect Federal
 4 and conforming State sales taxes and remit the State sales
 5 taxes to the States within 10 days of receiving said reve-
 6 nue.

7 “(c) FEDERAL ADMINISTRATION.—The Federal Gov-
 8 ernment will serve in the place of the State administrator
 9 with respect to multi-State vendors exercising the election
 10 under this section. With respect to electing multi-State
 11 vendors, the Federal Government exclusively will—

12 “(1) audit;

13 “(2) provide exemption certificates; and

14 “(3) otherwise administer the Federal and con-
 15 forming State sales tax in place of the administering
 16 State.

17 **“Subchapter E—Other Administrative**
 18 **Provisions**

“Sec. 41. Monthly reports and payments.

“Sec. 42. Records.

“Sec. 43. Registration.

“Sec. 44. Certificates.

“Sec. 45. Penalties.

“Sec. 46. Burden of persuasion and burden of production.

“Sec. 47. Attorneys and accountancy fees.

“Sec. 48. Appeals.

“Sec. 49. Subpoenas.

“Sec. 50. Tax court jurisdiction.

“Sec. 51. Power to levy.

“Sec. 52. Problem resolution officers.

“Sec. 53. Interstate allocation.

“Sec. 54. Tax to be separately stated and charged.

1 **“SEC. 41. MONTHLY REPORTS AND PAYMENTS.**

2 “(a) REPORTS.—On or before the 25th of each
3 month, every person who is liable to collect and remit the
4 tax imposed by this chapter, or pay the tax imposed by
5 this chapter by reason of gross payments described in sec-
6 tion (1) (hereafter in this section referred to as the ‘tax-
7 payer’), shall submit to the appropriate tax authority (in
8 a form satisfactory to the Secretary) a report relating to
9 the previous month that sets forth—

10 “(1) the gross payments referred to in section
11 1,

12 “(2) the tax collected under this chapter in con-
13 nection with such payments, and

14 “(3) the amount and type of any credit claimed.

15 “(b) PAYMENTS OF TAX.—The tax imposed by this
16 chapter with respect to any use, consumption or enjoy-
17 ment during any month shall be paid on or before the 25th
18 of the succeeding month. One payment shall pay both Fed-
19 eral and conforming State tax liability.

20 “(c) INTEREST ON AMOUNTS REMITTED LATE.—

21 “(1) IN GENERAL.—If any amount required to
22 be paid on or before the 25th of any month is paid
23 after such 25th day, the taxpayer shall pay simple
24 interest from such 25th day at the rate of—

25 “(A) 1 percent per month (or any fraction
26 thereof) for the first month, and

1 “(B) 1.5 percent per month (or any frac-
2 tion thereof) thereafter.

3 “(2) AMOUNTS PAID AFTER COLLECTION AC-
4 TION.—

5 “(A) IN GENERAL.—The rate of interest
6 under paragraph (1) shall be 2 percent per
7 month (or any fraction thereof) with respect to
8 amounts paid only after the commencement of
9 a collection action with respect to such
10 amounts.

11 “(B) COLLECTION ACTION.—For purposes
12 of subparagraph (A), the term ‘collection ac-
13 tion’ includes administrative levies or garnish-
14 ments and the commencement of legal action in
15 any court.

16 “(d) PENALTY FOR LATE FILING.—

17 “(1) IN GENERAL.—In the case of a failure by
18 any person to file a report required by subsection (a)
19 on or before due date (determined with regard to
20 any extension) for such report, such person shall pay
21 a penalty equal to the greater of—

22 “(A) \$50, or

23 “(B) 0.5 percent of the gross payments re-
24 ferred to in section 1 required to be shown on
25 the report.

1 “(2) INCREASED PENALTY ON RETURNS FILED
2 AFTER WRITTEN INQUIRY.—The amount of the pen-
3 alty under paragraph (1) shall be doubled with re-
4 spect to any report filed after a written inquiry with
5 respect to such report is received by the taxpayer
6 from the State Administrator.

7 “(3) EXCEPTIONS.—

8 “(A) REASONABLE CAUSE.—No penalty
9 shall be imposed under paragraph (1) with re-
10 spect to any failure if it is shown that such fail-
11 ure is due to reasonable cause.

12 “(B) OTHER WAIVER AUTHORITY.—In ad-
13 dition to penalties not imposed by reason of
14 subparagraph (A), the State Administrator, on
15 application, shall waive the penalty imposed by
16 paragraph (1) once per taxpayer per 2-year pe-
17 riod. The preceding sentence shall not apply to
18 a penalty determined under paragraph (2).

19 “(e) EXTENSIONS FOR FILING REPORTS.—

20 “(1) AUTOMATIC EXTENSIONS FOR LESS THAN
21 30 DAYS.—On application, extensions of less than 30
22 days to file reports under subsection (a) shall be
23 automatically granted.

24 “(2) OTHER EXTENSIONS.—Extensions of 30 to
25 90 days to file such reports shall be liberally granted

1 by the State Administrator for reasonable cause. Ex-
2 tensions greater than 90 days may be granted by the
3 State Administrator to avoid hardship.

4 “(3) NO EXTENSION FOR PAYMENT OF
5 TAXES.—Notwithstanding paragraphs (1) and (2),
6 no extension shall be granted with respect to the
7 time for paying the taxes under this chapter.

8 “(f) PENALTY FOR WILLFULLY OR RECKLESSLY AC-
9 CEPTING A FALSE EXEMPTION CERTIFICATE.—A person
10 who willingly or recklessly accepts a false exemption cer-
11 tificate shall pay a penalty equal to 20 percent of the tax
12 not collected on gross payments for taxable property and
13 services by virtue of said acceptance.

14 “(g) The Secretary shall establish a system whereby
15 violation of the National Retail Sales Tax Act of 1996 can
16 be brought to the attention of the Secretary for investiga-
17 tion through the use of a toll-free telephone number and
18 otherwise.

19 **“SEC. 42. RECORDS.**

20 “Any person liable to collect and remit taxes pursu-
21 ant to this chapter or pay the tax imposed by this chapter
22 by reason of gross payments described in section 1, shall
23 keep records (including, but not limited to, copies of all
24 section 54 receipts provided and complete records of ex-
25 empt purchases including exempt purchaser’s exemption

1 certificates and tax number and the net of tax amount
2 of purchase) sufficient to provide a reasonable basis for
3 determining the amounts reported, collected, and remitted
4 for a period of 3 years after the filing of the report for
5 which the records formed the basis. Any purchaser who
6 purchased taxable property or services but did not pay tax
7 by reason of asserting an exemption shall keep records
8 sufficient to provide a reasonable basis for determining
9 whether the exemption was valid for a period of 3 years
10 after the purchase of taxable property or services.

11 **“SEC. 43. REGISTRATION.**

12 “(a) IN GENERAL.—Any person liable to collect and
13 remit taxes pursuant to section 1 who is engaged in an
14 active trade or business shall register with the State or
15 Federal taxing authorities administering the taxes im-
16 posed by this chapter.

17 “(b) DESIGNATION OF TAX MATTERS PERSON.—
18 Every person registered pursuant to subsection (a) shall
19 designate a tax matters person. Each person registered
20 must provide notice of a change in the identity of the tax
21 matters person within 30 days of said change.

22 **“SEC. 44. CERTIFICATE.**

23 “‘The State Administrator shall issue certificates of
24 registration, exemption certificates, qualification certifi-
25 cates to qualified not-for-profit organizations and may

1 issue such other certificates as may prove useful in the
2 administration of the taxes imposed by this chapter.

3 **“SEC. 45. PENALTIES.**

4 “(a) FAILURE TO REGISTER.—Each person who is
5 required to register pursuant to section 43 but fails to do
6 so prior to notification by the State Administrator shall
7 be liable for a penalty of \$500.

8 “(b) FAILURE TO COLLECT OR REMIT TAX.—

9 “(1) CIVIL PENALTY.—Each person who reck-
10 lessly or willfully fails to collect or remit taxes im-
11 posed by section 1 shall be liable for a penalty equal
12 to the greater of \$500 or 20 percent of the tax not
13 collected or remitted.

14 “(2) CRIMINAL PENALTY.—Each person who
15 willfully fails as part of an active trade or business
16 to collect or remit taxes imposed by this chapter
17 may be imprisoned for a period of up to one year.

18 “(c) FAILURE TO PAY TAX.—

19 “(1) CIVIL PENALTY.—Each person who will-
20 fully fails to pay taxes imposed by section 1 shall be
21 liable for a penalty equal to the greater of \$500 or
22 20 percent of the tax not paid.

23 “(2) CRIMINAL PENALTY.—Each person who
24 willfully fails to pay taxes imposed by this chapter
25 may be imprisoned for a period of up to six months.

1 **“SEC. 46. BURDEN OF PERSUASION AND BURDEN OF PRO-**
2 **DUCTION.**

3 “In all disputes concerning taxes imposed by this
4 chapter, the person engaged in a dispute with the State
5 Administrator shall have the burden of production of doc-
6 uments and records but the State Administrator shall
7 have the burden of persuasion. In all disputes concerning
8 the legitimacy of an exemption claimed by a purchaser,
9 if the seller has on file a copy of a bona fide exemption
10 certificate and did not have reasonable cause to believe
11 that an exemption from the tax was unavailable to the
12 purchaser with respect to such purchase, then the burden
13 of production of documents and records relating to that
14 exemption shall rest with the purchaser and not with the
15 seller.

16 **“SEC. 47. ATTORNEYS AND ACCOUNTANCY FEES.**

17 “In all disputes concerning taxes imposed by this
18 chapter, the person engaged in a dispute with the State
19 Administrator shall be entitled to reasonable attorneys
20 and accountancy fees incurred in direct relation to the dis-
21 pute unless the State Administrator establishes that his
22 position was substantially justified.

23 **“SEC. 48. APPEALS.**

24 “The State Administrator shall establish an adminis-
25 trative appeals process wherein the taxpayer is provided

1 a full and fair hearing in connection with any disputes
2 he has with the State Administrator.

3 **“SEC. 49. TAXPAYER SUBJECT TO SUBPOENA ON PRODUC-**
4 **TION.**

5 “Taxpayers are subject to subpoena for records and
6 documents required by the State Administrator to accu-
7 rately determine liability for tax under this chapter.

8 **“SEC. 50. TAX COURT JURISDICTION.**

9 “The United States Tax Court shall have jurisdiction
10 pursuant to section 7442 of the Internal Revenue Code
11 of 1986 in connection with all disputes with taxpayers
12 arising under this chapter.

13 **“SEC. 51. POWER TO LEVY.**

14 “Pursuant to enforcement of a judgment duly ren-
15 dered by a court of law, the State Administrator shall have
16 the right to levy and seize property and garnish wages to
17 collect amounts due under this chapter.

18 **“SEC. 52. PROBLEM RESOLUTION OFFICERS.**

19 “The State Administrator shall establish a Problem
20 Resolution Office. Problem Resolution Officers shall have
21 the authority to investigate taxpayer complaints and en-
22 join collection activity if, in the opinion of the Problem
23 Resolution Officer, said collection activity is reasonably
24 likely to not be in compliance with law. Said administra-
25 tive injunction may only be reversed by the highest official

1 in the relevant State or Federal taxing authority or by
2 its General Counsel upon a finding that the collection ac-
3 tivity is justified by clear and convincing evidence. The
4 authority to reverse this administrative injunction may not
5 be delegated. Problem Resolution Officers shall not be dis-
6 ciplined or adversely affected for the issuance of adminis-
7 trative injunctions unless a pattern or issuing injunctions
8 that are manifestly unreasonable is proven in an adminis-
9 trative hearing. Nothing in this section shall limit the au-
10 thority of the State Administrators or the taxpayer to pur-
11 sue any legal remedy in any court with jurisdiction over
12 the dispute at issue.

13 **“SEC. 53. JURISDICTION AND INTERSTATE ALLOCATION.**

14 “(a) ALLOCATION RULES.—For purposes of allocat-
15 ing revenue between or among administering states from
16 taxes imposed by this subtitle, the revenue shall be allo-
17 cated to those states that are the destination of the taxable
18 property or services. The destination of the purchase of
19 taxable property and services shall be determined in ac-
20 cordance with this section.

21 “(b) FEDERAL OFFICE OF REVENUE ALLOCATION.—
22 The Secretary shall establish an Office of Revenue Alloca-
23 tion to arbitrate any claims or disputes among administer-
24 ing states as to the destination of taxable property and
25 services for purposes of allocating revenue between or

1 among the states from taxes imposed by this subtitle. The
2 determination of the Administrator of the Office of Reve-
3 nue Allocation shall be subject to judicial review in any
4 federal court with competent jurisdiction provided, how-
5 ever, that the standard of review shall be abuse of discre-
6 tion.

7 “(c) TANGIBLE PERSONAL PROPERTY.—The destina-
8 tion of tangible personal property shall be the state or ter-
9 ritory in which the property was first delivered to the pur-
10 chaser. Tangible personal property shipped by means of
11 the mail or common carrier shall be deemed delivered to
12 the location of the purchaser for purposes of this sub-
13 section upon shipment by mail or common carrier.

14 “(d) REAL PROPERTY.—The destination of real prop-
15 erty or rents or leaseholds on real property shall be state
16 or territory in which the real property is located.

17 “(e) OTHER PROPERTY.—The destination of other
18 property shall be residence of the purchaser.

19 “(f) SERVICES.—

20 “(1) GENERAL RULE.—The destination of serv-
21 ices shall be state or territory in which the use, con-
22 sumption or enjoyment of the services occurred. Al-
23 location of service invoices relating to more than one
24 jurisdiction shall be on the basis of time.

1 “(2) TELECOMMUNICATIONS SERVICES.—The
2 destination of telecommunications services shall be
3 the residence of the purchaser. Telecommunications
4 services shall include telephone, telegraph, cable tele-
5 vision, satellite and computer on-line or network
6 services.

7 “(3) DOMESTIC TRANSPORTATION SERVICES.—
8 For transportation services where all of the final
9 destinations are within the United States, the des-
10 tination of transportation services shall be the final
11 destination of the trip (in the case of round or mul-
12 tiple trip fares, the services amount shall be equally
13 allocated among the final destinations).

14 “(4) INTERNATIONAL TRANSPORTATION SERV-
15 ICES.—For transportation services where the final
16 destination or origin of the trip is without the Unit-
17 ed States, the service amount shall be deemed 50
18 percent attributable to the United States destination
19 and origin.

20 “(g) FINANCIAL INTERMEDIATION SERVICES.—The
21 destination of financial intermediation services shall be the
22 residence of the purchase.

23 “(h) A State Tax Administrator shall have jurisdic-
24 tion over any gross payments made which have a destina-
25 tion (as determined in accordance with this section) within

1 the state of said State Tax Administrator. This grant of
2 jurisdiction is not exclusive of other jurisdiction that said
3 State Tax Administrator may have.

4 “(i) RENTS AND ROYALTIES PAID FOR THE LEASE
5 OF TANGIBLE PROPERTY.—

6 “(1) GENERAL RULE.—The destination of rents
7 and royalties paid for the lease of tangible property
8 shall be where the property is located.

9 “(2) VEHICLES.—The destination of rent and
10 lease payments on vehicles shall be—

11 “(A) in the case of rentals and leases of a
12 term one month or less, the location where the
13 vehicle was originally delivered to the lessee;
14 and

15 “(B) in the case of rentals and leases of a
16 term greater than one month, the residence of
17 the lessee.

18 “(j) ROYALTIES FOR THE LICENSE OF INTANGIBLE
19 PROPERTY.—The destination of royalties for the license
20 of intangible is where the property is used.

21 **“SEC. 54. TAX TO BE STATED AND CHARGED SEPARATELY.**

22 “(a) IN GENERAL.—For each purchase of taxable
23 property or services for which a tax is imposed pursuant
24 to section 1, the sales tax shall be charged separately from
25 the purchase price by the vendor or seller. For purchase

1 of taxable property or services for which a tax is imposed
2 pursuant to section 1, the vendor shall provide to the pur-
3 chaser a receipt that sets forth at least the following infor-
4 mation—

5 “(1) the property or services price exclusive of
6 tax;

7 “(2) the amount of tax paid;

8 “(3) the property or service price inclusive of
9 tax;

10 “(4) the tax rate (the amount of tax paid (per
11 subparagraph 2) divided by the property or service
12 price inclusive of tax (per subparagraph 3));

13 “(5) the date that the good or service was sold;

14 “(6) the name of the vendor; and

15 “(7) the vendor registration number.

16 “(b) VENDING MACHINE EXCEPTION.—The require-
17 ments of subsection (a) shall be inapplicable in the case
18 of sales by vending machines. Vending machines for pur-
19 poses of this subsection shall mean machines—

20 “(1) that dispense taxable property in exchange
21 for coins, one, five, ten or twenty dollar bills, and

22 “(2) that sell no single item exceeding ten dol-
23 lars per unit in price.”

1 **SEC. 5. PHASE-OUT OF THE INTERNAL REVENUE SERVICE.**

2 Appropriations for any expenses of the Internal Reve-
 3 nue Service including processing income tax returns for
 4 years prior to the repeal of the income tax, revenue ac-
 5 counting, management, transfer of payroll tax data to the
 6 Social Security Administration and otherwise for years
 7 after fiscal year 2000 are not authorized.

8 **SEC. 6. EXCISE TAX ADMINISTRATION.**

9 The Secretary shall establish an Excise Tax Bureau
 10 to collect excise taxes formerly collected and administered
 11 by the Internal Revenue Service that are not repealed by
 12 this Act.

13 **SEC. 7. SOCIAL SECURITY ADMINISTRATION TO COLLECT**
 14 **PAYROLL TAXES.**

15 (a) Commencing January 1, 1998, the Social Secu-
 16 rity Administration shall collect and administer the taxes
 17 imposed pursuant to chapter 2 of subtitle A (relating to
 18 self employment income taxes) and subtitle C (relating to
 19 employment taxes) of the Internal Revenue Code of 1986.

20 (b) CROSS REFERENCES.—

For revised rules relating to the self-employment tax, see section 57.

For rules relating to revised withholding tax schedules and family consumption refund, see section 15.

For rules relating to trust fund accounting and payroll tax revenues, see section 6(b) of this act.

1 **SEC. 8. SELF-EMPLOYMENT TAX.**

2 (a) Subsection 1402(a) of the Internal Revenue Code
3 of 1986 is amended to read as follows:

4 “(a) IN GENERAL.—‘Self employment income’ shall
5 mean gross payments received in a calendar year from the
6 sale of taxable property or services (without regard to ex-
7 emption) less the sum in a calendar year of—

8 “(1) purchases of taxable property or services
9 (without regard to exemption) in furtherance of a
10 business purpose,

11 “(2) any wages paid (whether to the self-em-
12 ployed person or others) in furtherance of a business
13 purpose,

14 “(3) unused transition amounts, and

15 “(4) undeducted negative self employment in-
16 come amounts from prior periods.

17 “(b) TRANSITION AMOUNTS.—

18 “(1) GENERAL RULE.—The transition amount
19 for the ten calendar years commencing in 1998 shall
20 be the unrecovered basis amount as of the end of
21 December 31, 1997 divided by ten.

22 “(2) UNRECOVERED BASIS AMOUNT.—The un-
23 recovered basis amount shall be remaining income
24 tax basis relating to—

25 “(A) prior law section 167 property placed
26 in service prior to January 1, 1998, and

1 “(B) inventory held as of the end of 1997
 2 (including any amounts capitalized in accord-
 3 ance with prior law section 263A).”

4 (b) CONFORMING AMENDMENTS.—Subsection
 5 1402(b) and 1402(c) are hereby repealed. Subsections
 6 1402(d) et seq. are hereby renumbered as subsections
 7 1402(b) et seq.

8 **SEC. 9. INTEREST.**

9 Section 6621 of the Internal Revenue Code of 1986
 10 is amended by striking the last sentence in section
 11 6621(a)(1) and by striking “3” in section 6621(a)(2)(B)
 12 and substituting in its stead “2”.

13 **SEC. 10. SUPERMAJORITY REQUIRED TO RAISE RATE.**

14 “(a) IN GENERAL.—It shall not be in order in the
 15 House of Representatives or the Senate to consider any
 16 bill, joint resolution, amendment thereto, or conference re-
 17 port thereon that includes any provision that—

18 (1) increases any federal sales tax rate,
 19 (2) provides any exemption, deduction, credit or
 20 other benefit which results in a reduction in federal
 21 revenues.

22 (b) WAIVER OR SUSPENSION.—This section may be
 23 waived or suspended in the House of Representatives or

- 1 the Senate only by the affirmative vote of two-thirds of
- 2 the Members, duly chosen and sworn.



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